



Office of the City Auditor

Independent Auditor's Report on Applying Agreed-Upon Procedures Scottsdale City Court

Report No. 0601

April 7, 2006

The Arizona Supreme Court requires an external review of specific elements, at least triennially, to determine level of compliance with minimum accounting standards. This report presents the results of agreed-upon procedures undertaken to complete the external review.

CITY COUNCIL

Mayor
Mary Manross

Council
Betty Drake
Wayne Ecton
W.J. "Jim" Lane
Robert Littlefield
Ron McCullagh
Kevin Osterman



**Office of the
City Auditor**

7440 East First Avenue
Scottsdale, AZ 85251

PHONE 480-312-7756
FAX 480-312-2634
WEB www.scottsdaleaz.gov

April 7, 2006

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

This report serves to transmit the Independent Auditor's Report on Applying Agreed-Upon Procedures for the Scottsdale City Court. This engagement was completed to satisfy the requirements outlined in the minimum accounting standards promulgated by the Administrative Office of the Courts. This external review is required, at least triennially, to determine the level of compliance with these standards.

Scottsdale City Court management was provided a draft version of the report on April 4, 2006, with an exit conference held on April 6, 2006. The final report will be provided to Court management on April 10, 2006. According to the minimum accounting standards, a copy of the final report must be provided to the Presiding Judge of the County within seven days of receipt by the Court.

The Court staff was very cooperative during our review and their assistance made our engagement much easier. Financial Services staff also assisted with our review by providing access to documentation maintained by the Accounting Division.

If you need additional information or have any questions, please contact me at 480-312-7867.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Lee Barcala".

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA
City Auditor

Table of Contents

Report on Applying Agreed-Upon Procedures for the Scottsdale City Court	i
Transmittal Letter to the Court	ii
INTRODUCTION	1
OBJECTIVES, SCOPE, AND METHODOLOGY	1
Objectives	1
Scope	1
Methodology	2
LETTER OF ASSERTION	9



Office of the City Auditor

Independent Auditor's Report on Applying Agreed-Upon Procedures Scottsdale City Court

Report No. 0601

April 7, 2006

The Arizona Supreme Court requires an external review of specific elements, at least triennially, to determine level of compliance with minimum accounting standards. This report presents the results of agreed-upon procedures undertaken to complete the external review.

CITY COUNCIL

Mayor
Mary Manross

Council
Betty Drake
Wayne Ecton
W.J. "Jim" Lane
Robert Littlefield
Ron McCullagh
Kevin Osterman



**Office of the
City Auditor**

7440 East First Avenue
Scottsdale, AZ 85251

PHONE 480-312-7756
FAX 480-312-2634
WEB www.scottsdaleaz.gov

April 7, 2006

Arizona Supreme Court
Administrative Office of the Courts

B. Monte Morgan
City Judge
Scottsdale City Court

We have performed the procedures listed on the following pages, which were agreed to by the Administrative Office of the Courts and management of the Scottsdale City Court, solely to assist you in evaluating the Scottsdale City Court's compliance with minimum accounting standards required by the Supreme Court. It is the belief of the Scottsdale City Court that transactions are accurately assessed, receipted, recorded, and distributed in a timely manner. Management of the Scottsdale City Court also understands that they are responsible for maintaining an effective internal control system over financial accounting and reporting and compliance with minimum accounting standards.

This agreed upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described on the following pages either for the purposes for which this report has been requested or for any other purpose.

We were not engaged to, and did not, perform an engagement, the objective of which would be the expression of an opinion on the sufficiency of compliance with minimum accounting standards. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Administrative Office of the Courts and management of the Scottsdale City Court, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Respectfully submitted,

A handwritten signature in dark ink, reading "Cheryl Lee Barcala".

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA
City Auditor

INTRODUCTION

Minimum Accounting Standards (MAS), promulgated by the Administrative Office of the Courts (AOC), require the Court to have, at least triennially, an external review of specific elements in order to make certain determinations. To comply with this requirement, the external review is to be conducted in accordance with the American Institute of Certified Public Accountants *Statement on Standards for Attestation Engagements* (SSAEs) No. 4, *Agreed-Upon Procedures Engagements*. Subsequent to the last revision of the MAS, Standards for agreed-upon procedures engagements were revised and restated as SSAE No. 10.

The City Auditor's Office is established by Scottsdale City Charter and reports directly to the City Council. As such, according to the United States Government Accountability Office, Government Auditing Standards (2003 Revision), this Office may be presumed independent of the City management function.

We conducted our review in accordance with generally accepted government auditing standards, as required by Article III, Scottsdale Revised Code, §2-117, *et seq.*

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objective of this review is to complete procedures agreed upon by the Scottsdale City Court and AOC and report the results of those steps. At the conclusion of the work, a report of findings will be prepared. The report will not provide an opinion or negative assurance about Court operations. As required by MAS, a copy of this report is to be provided to the presiding judge of Maricopa County within seven days of receipt by the Scottsdale City Court.

Scope

Observations were completed on non-sequential days during the months of February and March 2006, and fieldwork was substantially completed the week ending March 31, 2006. Transactions selected for review were from the 2003, 2004, and 2005 calendar years. Work performed was limited to transactions controlled by the Court. Deposit of funds, investment of idle cash, preparation of checks, and bank reconciliations are a function of the City's Financial Services Department. Access to historical accounting records by Court staff is limited to view only.

Methodology

Part III of the MAS, "Guide for External Review by Auditors," was used as the source document for required procedures. Specific steps for this review were developed based on the Court operating environment. The procedures were discussed with staff at the AOC as well as the Court and approved by both parties.

We interviewed Court staff and requested copies of the three previous compliance checklists. We also requested copies of policies and procedures manuals. Inquiries were made of the City's Risk Management Division to verify that employees who handle cash are insured for faithful performance. As well, inquiries were made of the City's Accounting Division to verify that outstanding checks are reviewed periodically.

We observed the preparation of a daily deposit and counted change funds maintained by the Court. We also observed mail payment processing and various Court Service Representative (CSR) functions.

To verify cash receipts, a random selection of cash transmittals was made. For each day selected, the total on the transmittal was traced to the Banking Report, the Fee Report, and either a receipt from the City Cashier or deposit records from the bank. The transmittals and closeouts were reviewed for appropriate signatures. One receipt from each day was randomly selected and traced to the case financial record; the fine/fee and surcharges were recalculated and traced to the Allocation Detail Report.

To verify the allocation of funds to various revenue and agency accounts, totals from a random selection of one month each year were traced to the Fee Book Report. For the months selected, the Court Clearing Account was reconciled and the disbursement of funds to the State Treasurer was traced to the actual payment to verify the timeliness of processing.

The selection of disbursements was made from accounting records maintained by the City's Financial Services Department. The sample was limited to trust account items and did not include expenses related to Court operations. Of the 25 items selected, 19 were restitution payments and 6 were bond refunds. We accessed information on the AZTEC¹ system maintained by the Court to verify that the name and amount reflected on the disbursement agreed with the case record. For all disbursements, we traced to the original receipt of funds recorded by the Court to verify the amount. We also obtained canceled checks from imaged records maintained in the Accounting Division to verify the name and amount.

¹ AZTEC is the case management system used by the Court.

Observations and Interviews	
<i>Obtain copies of three previous Compliance Checklists; review for issues of non-compliance.</i>	Court staff provided copies of the three previous Compliance Checklists. Three noncompliance issues were noted on the January 6, 2006, Checklist (MAS 5.06, 7.03, and 11.04). The Court has requested exceptions for these issues. No other issues were noted.
<i>Determine the level of outreach that has been made to advise agencies, which accept payments on behalf of the Court, of MAS.</i>	Court staff hold annual meetings with other parties who accept payments and process disbursements on behalf of the Court. Copies of MAS and fine/bond schedules are distributed to appropriate parties.
<i>Interview Risk Management Director to verify that City employees are insured for faithful performance.</i>	The Risk Management Director confirmed that City employees are insured for faithful performance.
<i>Interview Financial Services staff to confirm that a process is in place to timely research and resolve outstanding checks, place a stop payment, and report a check that is lost.</i>	Staff in the Accounting Division confirmed that a process exists to resolve outstanding checks over \$50, place a stop payment, and report a check that is lost. No process is currently in place to resolve outstanding checks under \$50.
<i>Verify bank reconciliations are completed in a timely manner.</i>	Bank reconciliations are completed in a timely manner.
<i>Verify that the Court has posted the financial policies, required by MAS 3.01, at a conspicuous location in the Court office.</i>	Financial policies with all required information were posted in a conspicuous location at the Court.
<i>Verify the Court has safeguards in place as defined by MAS. Examine cash and checks received and verify that they are secured in a location that is out of the public view and only accessible to authorized personnel.</i>	Funds are handled in a secure manner out of public view and with restricted access until deposited. The duties of cashiering and reconciliation of daily deposits are adequately segregated and policies and procedures for the cashiering function are available.
<i>Examine checks received and verify that the Court immediately, restrictively endorsed them.</i>	All checks presented for deposit on the day selected for observation of the preparation of the deposit were restrictively endorsed. During observation of the cashiering and mail processing functions, Court staff endorsed all checks immediately upon receipt.
<i>Prior to the distribution of the cash drawers, count and compare the amount set aside as a change fund for each cashier. Count and compare the amount retained in the safe as a change fund and examine for evidence of loans, personal checks, or receipts for purchases.</i>	The change fund for each cashier agreed with the amount established. The change fund maintained by the safe cashier agreed with the amount established. There was no evidence of loans, personal checks, or receipts.

<i>Verify evidence of signature by both the change fund custodian and the CSR acknowledging the amount in the change fund.</i>	Evidence was available to indicate that the appropriate CSR verifies the amount of the change fund at the start of an assignment and by the safe cashier when the deposit is made.
<i>Observe the mail receipt procedure used by the Court for timeliness of endorsement and deposit and for safeguarding of receipts prior to deposit.</i>	Mail receipts were immediately endorsed and entered into AZTEC the same day. Receipts were kept in a lockable CSR drawer or safe until the daily deposit was prepared.
<i>Determine that the segregation of duties for cash receipts and cash disbursements complies with Attachments A-D guidelines to the extent possible for the Court.</i>	Segregation of duties for cash receipts and cash disbursements complies with guidelines outlined in MAS.
<i>Determine if sufficient controls are in place for payments received from Defensive Driving Schools and the Police Department.</i>	Controls over payments from defensive driving contractors are sufficient. Police bond payments are receipted the same day received at the Court, money is safeguarded during transport to the Court, but payments are not remitted to the Court the next working day. The Police Department sends bond payments to the Court on a weekly basis.
<i>Determine if reconciliations are completed at least monthly for the Restitution and Bond Refund accounts. Verify bond refunds are only processed via check disbursement and on order of the Court.</i>	Reconciliations are done monthly. Not all refunds are disbursed by check. If payment was received by credit card, it is refunded by credit card according to City agreement with credit card vendors. The Court has requested an exception for this.
Manual Receipts	
<i>Visually inspect the manual receipts used by the Court and verify that receipts are imprinted with the name of the Court and consecutively pre-numbered.</i>	Manual receipts are imprinted with the name of the Court and are consecutively pre-numbered.
<i>Determine that appropriate safeguards are in place to account for individual receipts and receipt books. Verify that unused books are maintained in a secure fashion.</i>	Manual receipt books are logged in when received and signed out when issued. Unused books are kept in a locked drawer.

Balancing, Reconciliation, Deposit of Funds

Select a random sample of twenty-five days and test the balancing, reconciliation, and deposit of funds.

<i>Verify that the amounts listed on the Cash Transmittal agree with the Banking Report, all registers, and all deputies. Note any adjustment necessary as a result of a wire transfer. For any days in which an adjustment was necessary to account for a wire transfer, obtain verification from Financial Services of the amount of the payment.</i>	Totals on the transmittal agreed with the Banking Report after adjustments for wire transfers. Financial Services confirmed the receipt of all wire transfers in the appropriate amounts. One transfer was reduced \$55 as a wage garnishment fee paid to a collection agency, but never charged on the case file or recovered from the individual involved.
<i>Visually inspect the Cash Closeout for evidence of signature by CSR and supervisor.</i>	Both a CSR and supervisor signed all closeouts.
<i>Visually inspect the Cash Transmittal for evidence of the signature of the person preparing transmittal.</i>	The signature of the person preparing the deposit was evident each of the twenty-five days in the sample.
<i>Verify any significant over or under differences were noted and reviewed.</i>	Three shortages and one overage were noted and reviewed.
<i>For each of the twenty-five days selected, confirm that the Banking Report, all registers, and all deputies agree with the Fee Book Report.</i>	All twenty-five days agreed.
<i>Verify that the deposit, in the same form as was prepared, was timely submitted to the City Cashier or directly to the bank.</i>	All deposits were submitted in the same form in a timely manner.

System Generated Receipts

Select a random sample of 25 receipts, one from each of the twenty-five days previously selected. Then:

<i>Using the receipts retrieval function, verify that the receipt information listed on the Banking Report matches the information listed on the receipt.</i>	There were no exceptions.
<i>Obtain the Register of Actions for the case listed on the receipt and verify that the amount posted to the case financial record agrees with the information on the receipt.</i>	There were no exceptions.

<i>For Bond (Bail) payments, trace to the Outstanding Bail Report or confirm that the Bond has been forfeited, converted, or exonerated and refunded, based on Court order.</i>	None of the 25 sample receipts related to bail or bonds.
<i>For restitution payments, verify that a disbursement was made to the appropriate party in a timely manner (ten days per Court policy).</i>	Two restitution payments involving three victims were included in the sample. Two checks were disbursed within ten days. No check was issued to the third victim (City of Scottsdale); a transfer of funds was posted twelve days after receipt.
<i>For non-trust receipts, determine the related fine/fee for which the payment was made. Compare the fine/fee to the appropriate bond card or the case file, as appropriate.</i>	Twenty-one of the twenty-five receipts matched a bond card or the case file. Of the remaining four, one fine amount was different from the bond card, one case file did not match the fines and fees posted to the case financial record, one fine amount was not listed on any bond card or in the case file, and no bond card was available to verify a fine from 1996.
<i>Re-calculate the surcharge based on date of violation for accuracy. Trace to the allocation detail available on AZTEC to verify the allocation.</i>	There were no exceptions. All 25 of the 25 receipts tested were calculated and allocated correctly. During review of supporting documentation, it was noted that two charges were not sentenced on a case financial record: a \$34 charge for a blood sample procedure and a \$293 charge listed on the Sentencing Disposition Sheet. A total of \$327 was not collected from the defendant.
<i>Determine whether or not a time payment fee was applicable. If applicable, determine if the register of action reflects the assessment. Verify that the amount of the assessment was correct based on the schedule in effect at the date of payment. Track to the allocation detail available on AZTEC to verify the appropriate distribution.</i>	There were no exceptions. Time payments were assessed when appropriate. For each time payment in the sample, the allocation was correct.
Monthly Reconciliation and Disbursement of Surcharges Select one month from each of the last three years.	
<i>Verify that the month-to-date Fee Book Report agrees with the journal entry forwarded to Financial Services for disbursement of funds.</i>	The journal entry forwarded for the disbursement of funds agreed with the Fee Book Report for all three months.
<i>Verify that cash deposits posted to the Court Clearing Account maintained on the City financial system agrees with the monthly journal entries for disbursement of funds.</i>	Cash deposits posted to the Court Clearing Account reconciled with the monthly journal entries for disbursement of funds.

<i>Verify that the disbursement of funds to the State Treasurer agrees with the amount and was made in a timely manner.</i>	Payment to the State Treasurer agreed with the Fee Book Report and payment was timely.
Outstanding Items	
<i>Obtain a print out of activity posted to the dummy case and review for balance and length of time monies have remained in the account.</i>	As of March 16, 2006, 2 items were being tracked as outstanding, both for eight days. All funds had been deposited and the Court has procedures to review the status on a daily basis.
Cash Disbursements Select 25 random disbursements from the Restitution and Bond Refund Accounts maintained by Financial Services. Then:	
<i>Trace the payment back to the case financial record verifying that the name of the payee, amount, and voucher number agree.</i>	The name of the payee was not listed on any of the case financial records (Registers of Actions). The payees were listed as V1, V2, or D1; codes corresponded to the payee information elsewhere in the case file. The amount agreed for all 25 disbursements. The voucher number on the case financial record is system generated when the request for disbursement is prepared. This record does not reflect the actual check number used for payment.
<i>Compare date of voucher on AZTEC to date of check on financial records for timeliness of processing.</i>	All restitution disbursements were processed within the timeframe (ten business days) set by Court policy. Bond refunds should be refunded within fifteen business days according to Court policy. One bond refund check was dated seventeen days after the order date.
<i>Verify that the disbursement was based on Court order and that the payee name agrees with the name of the person listed as posting bond or with agreement in the file to disburse funds to another party.</i>	There were no exceptions.
<i>For restitution payments, verify that the payee name agrees with the victim information.</i>	There were no exceptions. In cases with multiple victims, the payee name agreed with at least one victim.
<i>Obtain the canceled check and verify that the endorsement agrees with the payee.</i>	Fifteen endorsements appeared to agree with the name of the payee. Eight signatures were illegible, one check was not endorsed, one was signed over to another party, and one disbursement was made by journal entry to accomplish payment to the City of Scottsdale as the victim.

Open Item Record

Obtain Outstanding Bail Report at June 30, 2005, and December 31, 2005. Identify bail payments outstanding for more than six months. Determine the appropriateness of holding funds when deposits have been held for more than six months.

Obtain the Register of Actions for those cases and justification from Court personnel. Based on auditor judgment, note any outstanding items without reasonable explanation. Determine if item was resolved prior to end of fieldwork.

Twenty-five bonds were found to be over six months old. Eighteen were no longer outstanding as of the completion of fieldwork. Each of the remaining seven cases still outstanding had sufficient information in the case file to support the retention of the bail.

LETTER OF ASSERTION



Scottsdale City Court
B. Monte Morgan
Presiding Judge

Janet G. Cornell
Court Administrator

3700 N. 75th Street
Scottsdale, AZ 85251

PHONE: 480-312-2772
FAX: 480-312-2764
FAX: 480-312-2305

March 1, 2006

Ms. Cheryl Barcala
City Auditor
7440 East First Avenue
Scottsdale, AZ 85251

Dear Ms. Barcala,

As required by the standards for agreed upon procedures engagements established by the American Institute of Certified Public Accountants (AT §601.68), the following assertions are provided.

The Minimum Accounting Standards (MAS) for Arizona Courts prescribes the standard accounting policies and procedures to assist courts in complying with applicable statutes and generally accepted accounting principles (GAAP). Part III, the Guide for External Review by Auditors, contains the procedures and sample sizes for the external review. We are requesting and confirming that your office will conduct the external review on our City Court.

It is the belief of this Court that an effective internal control system has been maintained over the financial accounting and reporting based on the MAS audit completed on January 6, 2006. The Court understands that it is responsible for maintaining an effective internal control system over financial accounting and reporting and its compliance with the MAS. We look forward to working with you during the external review.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Monte Morgan", is written over the word "Sincerely,".

B. Monte Morgan
Presiding Judge
Scottsdale City Court

Copies: Janet G. Cornell, Daniel Edwards, Candace Schafer